

Mr. Chairman, an aphorism in common use today states that the definition of insanity is repeating the same thing over and over and expecting a different result. I cannot think of a better way to describe the Federal Reserve's conduct of monetary policy over the last three years. Business cycles are caused by monetary expansion, and the bust phase of the cycle is the natural consequence of malinvestment caused by the Fed's creation of easy credit. Each time this country falls into recession, the Federal Reserve has resorted to further monetary expansion in order to pull the country out of its economic malaise. This monetary policy always results in a new and bigger boom, followed by an even bigger bust. Now we find ourselves in the midst of the mother of all business cycles. We have seen the monetary base explode with trillions of dollars of newly created money, with Wall Street fat cats receiving bailout after bailout, while ordinary Americans increasingly find their standard of living decreasing.

Assertions that the government's interventions have returned a profit for taxpayers are ludicrous. The federal government's deficit spending is subsidized by the Fed, which purchases newly created Treasury debt with money created out of thin air. The Fed receives tens of billions of dollars of taxpayer dollars in interest payments on those debt holdings, uses part of the interest to fund its operations, and then returns the rest of the money to the Treasury. This indirect taxpayer funding of the Fed's operations, in which the Treasury receives less money than it paid out, is called a "profit." With regard to the TARP bailout loans, the only reason so many banks are able to repay is because the Fed has purchased so much Treasury debt from the banks, who hold those new funds as excess reserves. The Fed pays interest on those excess reserves, allowing the banks to repay their TARP loans with interest, which is then characterized as profit. So money is created out of thin air to purchase Treasury debt, and is created out of thin air again to pay interest on the money that was just created out of thin air. It is easy to make a profit when one has this ability to create unlimited amounts of new money.

Total spending on all the bailouts, stimulus packages, and quantitative easing has come to over \$5.3 trillion, and what does Chairman Bernanke have to show for this? What have these trillions of dollars in spending actually accomplished? Real GDP has increased by only \$105 billion since the beginning of 2008. If the Fed were really concerned with stimulating consumption, it could have just as easily loaded this money into helicopters and dropped it over American cities. \$5.3 trillion is nearly \$17,000 for every man, woman, and child in this country. Where would the average American be with an extra \$17,000 in his pocket? That would have stimulated consumption far more than what the Fed has done by shoveling trillions of dollars to the politically-connected big banks who either hold that money as excess reserves or loan it out at interest to the taxpayers whom the Fed will not deign to assist.

The latest job numbers have further underscored the fact that the economy, rather than

recovering, is still mired in the depths of a serious recession. The Fed has failed in its Congressionally-mandated mission of maintaining stable prices and ensuring full employment and has failed to achieve its own goal of returning to adequate levels of economic growth. Chairman Bernanke has even gone so far as to admit that "we don't have a precise read on why this slower pace of growth is persisting." Seven million fewer people are employed now than at the beginning of 2008, while the population has increased by nearly eight million. Just to return to pre-crisis levels of employment will take several years. In fact, the only reason that the official unemployment rate is only 9.2% is that so many Americans have given up looking for work and have dropped out of the labor force.

The dollar has lost nearly 50% of its value against gold since 2008 and continues to deteriorate against major currencies. While the Fed claims that inflation has averaged 2% or less over the past few years, economists who compile alternate data conclude that the CPI has increased over 9% per year. Americans feel inflation keenly, despite the pronouncements of leaders who have been proclaiming for the past year that the recession is over and the economy is improving. Commodity prices continue to rise, food is becoming more expensive, and everything the Fed does has the goal of ensuring these continued high prices.

It is painfully obvious that the economy is not recovering, so what will Chairman Bernanke do now? Consumers, investors, and taxpayers wait with bated breath, unsure of what the Fed's next step is. Will the Fed continue its policy of quantitative easing, forcing more devalued dollars into the system, or will it finally acknowledge that the first step to recovery is allowing bad debt to liquidate, insolvent financial firms to go under, and housing prices to return to more reasonable levels? Treasury Secretary Geithner has recently admitted that "we don't have the ability, because of the overhang in housing, and the problems in the financial system, to engineer artificially a stronger recovery." I certainly hope that Chairman Bernanke will take this statement to heart when he plans his next move.

A sound economy is an impossibility without sound monetary policy. Rather than defend the integrity of the dollar and the people who depend on it to purchase the necessities of life, the Fed has done its darnedest to devalue the dollar and continue the same inflationary policies that got us into this mess in the first place. Until the Fed acknowledges the role that loose monetary policy plays in creating booms and busts, eschews further bailouts to insolvent financial institutions, and ceases its attempts to prop up the housing market, I fear that the economy will continue to implode.